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17 October 2025

To: the independent board committee and the independent shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Be Friends Holding Limited (the "**Company**") in relation to the proposed acquisition (the "**Acquisition**") of 100% equity interests in Hangzhou Be Friends Education Technology Co., Ltd.* (杭州交個朋友教育科技有限公司) (the "**Target Company**"). Details of the Acquisition are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 17 October 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 5 August 2025 (after trading hours), the Vendors of the Target Company and the Partnership (both as vendors), the Subsidiary A (as purchaser) and the Target Company entered into the Equity Purchase Agreement, pursuant to which the Vendors of the Target Company and the Partnership have conditionally agreed to sell, and the Subsidiary has conditionally agreed to acquire, the Sale Equity, representing 100% equity interests in the Target Company, at a total consideration of RMB180.0 million (equivalent to approximately HK$197.9856 million). On 25 September 2025 (after trading hours), the Subsidiaries and the relevant parties entered into the Supplemental Agreement to amend certain terms and the structure of the Acquisition (the "**Amendments**"), pursuant to which the Partnership (formerly referred to as Vendor A) will cease to be a vendor selling 34.935% of equity interest in the Target Company under the Equity Purchase Agreement, and instead, the Vendors of the Partnership (being the partners of the Partnership) have agreed to sell, and the Subsidiaries have agreed to purchase, the Sale Partnership Interest, representing 100% partnership interest in the Partnership. The sale and purchase of the Sale Equity of the Target Company, being a total of 65.065% equity interests held by Vendor B, Vendor C, Vendor D and Vendor E in the Target Company remain unchanged.

According to the Board Letter, as one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Acquisition are more than 5% but all are less than 25%, the Acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules. In addition, Vendor B (i.e. Mr. Li Liang) and Vendor C (i.e. Mr. Li Jun) are both executive Directors and therefore connected persons of the Company. Ms. Xu, being a vendor of the Partnership, is the mother of Mr. Li Liang, and is therefore an associate of Mr. Li Liang and a connected person of the Company under the Listing Rules. Mr. Cui, being another vendor of the Partnership, is a director of Hangzhou Be Friends Wisdom Technology Co., Ltd.* (杭州交個朋友智慧科技有限公司), an indirect wholly-owned subsidiary of the Company, and therefore is a connected person of the Company at subsidiary level under the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kong Hua Wei, Mr. Ma Zhan Kai and Dr. Yu Guo Jie, has been established to advise the Independent Shareholders in relation to the Acquisition. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard (the "**Engagement**").

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the Engagement. In the past two years, there has been no other engagement between the Company and Somerley Capital Limited. During the past two years preceding the Latest Practicable Date, apart from normal professional fees paid or payable to us in connection with the Engagement, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our opinion, we have relied on the information as contained in the Circular and the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (the "**Management**"). We have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group or the Vendors, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Acquisition, we have taken into account the principal factors and reasons set out below.

1. Information on the parties to the Acquisition

Information on the Group

The Group is a leading all-media service provider in the PRC, mainly providing services of comprehensive video application involving full-chain services including live-streaming, video content production, product sales and system maintenance to new media platforms, industrial customers and broadcasters, etc.

Set out below are the audited consolidated financial information of the Group for each of the two years ended 31 December 2023 ("**FY2023**") and 31 December 2024 ("**FY2024**") as extracted from the Company's annual report for FY2024 (the "**2024 Annual Report**") and the unaudited consolidated financial information of the Group for the six months ended 30 June 2024 ("**HY2024**") and the six months ended 30 June 2025 ("**HY2025**") as extracted from the Company's interim report for HY2025 (the "**2025 Interim Report**"):

	For the year ended 31 December 2024	**For the year ended 31 December 2023**	**Year-on-year ("YOY") change**
	RMB'000	*RMB'000*	*%*
Revenue	1,250,504	1,074,335	16.40
— *New media services*	*1,138,144*	*988,732*	*15.11*
— *Television broadcasting business*	*112,360*	*85,603*	*31.26*
Gross profit	606,744	566,910	7.03
Profit for the year	72,230	113,971	(36.62)
Profit attributable to owners of the Company	81,708	119,462	(31.60)

The Group recorded revenue of approximately RMB1.25 billion for FY2024, representing an increase of approximately 16.40% as compared to that for FY2023. During FY2024 and FY2023, the new media services segment has contributed majority of the Group's revenue (representing approximately 91.01% and 92.03% of the total revenue of the Group respectively), while the remaining of the Group's revenue were generated from the television broadcasting business segment.

Revenue from the new media services segment increased from approximately RMB0.99 billion for FY2023 to approximately RMB1.14 billion for FY2024; and revenue from the television broadcasting business segment increased from approximately RMB85.60 million for FY2023 to approximately RMB112.36 million for FY2024. According to the 2024 Annual Report, the increase in revenue from the new media services segment was mainly due to the Group's in-depth exploration of the live-streaming scenarios and the deepening of cooperation along the industrial belt during FY2024; while the increase in revenue from the television broadcasting business segment was mainly due to the gradual expansion in business scope and customer base of the television broadcasting business during FY2024.

The Group recorded gross profit of approximately RMB606.74 million for FY2024, representing an increase of approximately 7.03% as compared to that for FY2023. As advised by the Management, such increase in gross profit was mainly attributable to the aforesaid increase in revenue. The Group recorded profit attributable to owners of the Company of approximately RMB81.71 million for FY2024, representing a decrease of approximately 31.60% as compared to that for FY2023. As advised by the Management, such decrease in profit was mainly attributable to the increase in expenses (such as selling expenses and administrative expenses which increased by approximately 22.00% and 10.88% respectively during FY2024 as compared to those for FY2023) as a result of the staff recruitment and reserve plan of the Group during FY2024 as the Group continued to strengthen its core businesses.

	For the six months ended 30 June 2025 *RMB'000*	**For the six months ended 30 June 2024** *RMB'000* *(restated)*	**YOY change** %
Revenue from continuing operations	618,861	563,645	9.80
Gross profit from continuing operations	270,687	303,186	(10.72)
Profit for the year from continuing operations	55,367	88,418	(37.38)
Profit attributable to owners of the Company from continuing operations	57,662	88,689	(34.98)

The Group recorded revenue from continuing operations of approximately RMB618.86 million for HY2025, representing an increase of approximately 9.80% as compared to that for HY2024. During HY2025, all of the Group's revenue from continuing operations came from the new media services segment. According to the 2025 Interim Report, the increase in revenue was mainly due to the expansion of the matrix live-streaming channels and the multiplatform strategies of the Group's new media services business.

As mentioned in the 2025 Interim Report, given the rapid growth of new media formats (e.g. short videos and live-streaming e-commerce) and their impacts on traditional radio and television businesses, the Group's traditional television broadcasting operations faced challenges, such as audience fragmentation, shrinking advertising demand and singular profit model, resulting in the growth of traditional television broadcasting business lagging behind the Group's overall strategic direction. On 28 March 2025, the Group entered into an agreement with an independent third party to dispose of 100% equity interest of its subsidiary which principally engages in television broadcasting business of the Group, and the disposal was completed on 31 July 2025. For further details of the disposal, please refer to the Company's announcements dated 28 March 2025 and 23 April 2025, and circular dated 23 May 2025.

The Group recorded gross profit from continuing operations of approximately RMB270.69 million for HY2025, representing a decrease of approximately 10.72% as compared to that for HY2024. As advised by the Management, such decrease in gross profit was mainly attributable to the rising platform traffic acquisition cost of the new media services business. The Group recorded profit attributable to owners of the Company from continuing operations of approximately RMB57.66 million for HY2025, representing a decrease of approximately 34.98% as compared to that for HY2024. As advised by the Management, such decrease in profit was mainly attributable to the aforesaid decrease in gross profit as a result of the increase in the cost of platform traffic promotion.

Information on the Subsidiary

The Subsidiary is an indirect wholly-owned subsidiary of the Company and is incorporated in the PRC. It mainly engages in livestreaming e-commerce business.

Information on the Partnership

According to the Board Letter:

The Partnership is a limited partnership established in the PRC, which is principally engaged in investment business, and is beneficially owned as to 85% by Ms. Xu, who is its general partner, and 15% by Mr. Cui, who is its limited partner.

The Partnership has no business operations and, other than its 34.935% equity interest in the Target Company, has no liabilities and has no other large assets. Set out below are certain key financial information of the Partnership as extracted from its unaudited consolidated financial statements for the years ended 31 December 2023 and 31 December 2024 and for the six months ended 30 June 2025 according to the Board Letter:

	For the year ended 31 December 2023	For the year ended 31 December 2024	For the six months ended 30 June 2025
	RMB'000	*RMB'000*	*RMB'000*
Revenue	Nil	Nil	Nil
Net profit before tax *(note)*	3.50	0.72	Nil
Net profit after tax *(note)*	3.50	0.72	Nil

Note: The Partnership has no business operations. The net profit recorded for the years ended 31 December 2023 and 2024 and the six months ended 30 June 2025 represents bank interest income earned on its bank deposit.

As at 30 June 2025, the unaudited consolidated net assets of the Partnership amounted to approximately RMB689.22 thousand.

The original acquisition costs of the relevant portions of the Sale Partnership Interest held by Ms. Xu and Mr. Cui who are connected persons of the Company is RMB582.25 thousand and RMB102.75 thousand, representing the respective capital contributions made by Ms. Xu and Mr. Cui in respect of their respective Sale Partnership Interest in the Partnership, as its founding partners.

Information on the Vendors of the Partnership

According to the Board Letter:

— Ms. Xu is an investor and resident of mainland China. She is the mother of Mr. Li Liang.

— Mr. Cui is a director of Hangzhou Be Friends Wisdom Technology Co., Ltd.* (杭州交個朋友智慧科技有限公司), an indirect wholly-owned subsidiary of the Company and resident of mainland China.

Information on the Vendors of the Target Company

According to the Board Letter:

— Vendor B is the executive Director and chief executive officer of the Company. As at the Latest Practicable Date, Vendor B is interested in 95,628,200 Shares, representing approximately 6.89% of the Company's total issued share capital.

— Vendor C is the executive Director and the chairman of the Board of the Company. As at the Latest Practicable Date, Vendor C is interested in 323,500,334 Shares, representing approximately 23.32% of the Company's total issued share capital. Accordingly, Vendor C is also a substantial shareholder of the Company.

— Vendor D is a limited partnership established in the PRC and Mr. Wang Wei, who is its general partner, held a 56.25% partnership interest in Vendor D, and no other person held an interest of more than 30% in Vendor D. Vendor D is principally engaged in investment business. As at the Latest Practicable Date, Vendor D and its ultimate beneficial owners are Independent Third Parties.

— Vendor E is an investor and resident of mainland China. As at the Latest Practicable Date, Vendor E is an Independent Third Party.

Information on the Target Group

The Target Company is a limited liability company incorporated in the PRC. The Target Group principally engages in the business of providing diverse training solutions of livestreaming e-commerce and e-commerce operation for corporate and individual clients, offering online and offline courses and dedicated live-streaming e-commerce partnership for customers. The Target Company is not operating restricted businesses in the PRC.

As mentioned in the Board Letter, the Target Company requires and has obtained a business license and a publication business permit for its operations. While the Company has not yet obtained the publication business permit, it is not required to obtain such a permit, as the relevant business will continue to be operated by the Target Company after the Completion.

As advised by the Management, the Target Group was established in and has commenced operation since November 2021. The Target Group was found and led by industry professionals who have extensive experience in the education industry. Throughout the last few years, the Target Group has solidified its unique competitiveness by accumulating extensive experience in training, training cases and customer base, and the Target Group customers include not only individual marketing talents, but also corporate merchants in different industry. The services of the Target Group include online and offline courses, as well as exclusive live-streaming e-commerce collaboration programs. Its business is structured around the following core segments:

Training Courses:

The Target Group has developed a comprehensive, multi-dimensional curriculum system covering core e-commerce scenarios such as operations, short-form video content creation, anchor training, advertising placement, and distribution. Delivered through various online and offline formats, they are aimed at enhancing the learning experience and satisfaction of students.

In-Depth Consulting Services:

This service offers end-to-end, meticulous coaching for individual entrepreneurs and merchants. It encompasses areas including account positioning, operational models, live-stream operations, video content creation, product selection and merchandising, and team building. This service is designed to align closely with clients' actual business conditions, offering one-on-one diagnostic support to help overcome bottlenecks in ecommerce initiatives.

Customized Corporate Training:

Centered on specific client needs and following in-depth research into their industry, the Target Group offers customized training services for corporate executives, department head, and front-line employees. Providing end-to-end training from business strategy to operational processes, the Target Group assists clients in facilitating ecommerce transformation, improving operational efficiency, and ensuring successful implementation.

Upon the Completion, all core management will remain at the Target Group, and the Acquisition will not affect the operation of the Target Group.

Set out below is a summary of the audited consolidated financial information of the Target Group for FY2023, FY2024 and HY2025 as extracted from the Board Letter:

	For the year ended 31 December 2023	**For the year ended 31 December 2024**	**For the six months ended 30 June 2025**
	RMB'million	*RMB'million*	*RMB'million*
Revenue	135.91	136.02	72.57
Net profit before tax	2.01	17.21	10.13
Net profit/(loss) after tax	(1.67)	16.09	9.57

The Target Group recorded revenue of approximately RMB136.02 million for FY2024, representing a slight increase of approximately 0.08% as compared to that for FY2023. We understand that the modest growth for FY2024 was primarily attributed to the underperformance of the Target Group's channel partners, who did not achieve the expected level of business referrals. In response, the Target Group slowed down such partnerships in 2025 and implemented dual strategies for its training business by expanding its own customer acquisition channels and diversifying product portfolio.

The Target Group recorded net profit after tax of approximately RMB16.09 million for FY2024, as compared to net loss after tax of approximately RMB1.67 million for FY2023. We understand that such turnaround to profitability was mainly attributable to the non-recurring loss in FY2023 from the closure of a subsidiary engaging in the overseas business and the discontinuation of business of one subsidiary established in Guangzhou.

According to the Board Letter, the audited consolidated net assets of the Target Group amounted to approximately RMB37.35 million as at 30 June 2025.

2. Reasons for and benefits of the Acquisition

As mentioned in the sub-section headed "Information on the Group" above, revenue from new media services segment contributed approximately 91.01% and 92.03% of the total revenue of the Group for FY2024 and FY2023 respectively. Under the new media services segment, the Group provides marketing and promotion services to merchants on the e-commerce platforms. As mentioned in the sub-section headed "Information on the Target Company" above, the Target Group principally engages in the business of providing diverse training solutions of livestreaming e-commerce and e-commerce operation for corporate and individual clients, offering online and offline courses and dedicated live-streaming e-commerce partnership for customers. Throughout the last few years, the Target Group has solidified its unique competitiveness by accumulating extensive experience in training, training cases and customer base.

According to the Board Letter, the Group's strategic acquisition of the Target Group aims to further strengthen its comprehensive service capabilities and core competitiveness in the new media service sector, while solidifying its competitive edge and market influence in live-streaming e-commerce industry. Upon Completion, the Group intends to achieve multidimensional resource integration to enhance synergies between the existing new media business of the Group and the business operations of the Target Group, with the objective of creating greater value for shareholders:

(a) Enhancing talent capabilities

As advised by the Management, upon completion of the Acquisition, not only will the Target Group be able to provide training to the Group's marketing talents and the Group's corporate clients (the merchants), the expertise of the Target Group in e-commence strategies, traffic distribution and product positioning is also expected to strengthen the core competitiveness of the Group.

The Target Group's elite team of trainers, practical and proven curriculum system, and deep industry insights will strengthen the Group's expertise and execution in key areas such as live-streaming operations, e-commerce strategies, and livestreamer incubation. This will accelerate the Group's capability building and lay a solid talent and technological foundation for future business growth of the Group.

(b) *Expanding customer reach and deepening engagement*

As advised by the Management, the Target Group provides training to both individual marketing talents and corporate merchants, and the Target Group has accumulated a substantial pool of highly targeted students and corporate clients through its e-commerce training solutions. We understand from the Management that the Target Company's instructor team comprises professional trainers with extensive hands-on experience in e-commerce and proven expertise in training delivery. Most team members have 5 to 8 years or more of deep industry experience in internet or education, with each individual having generated a cumulative gross merchandise value of over RMB 100 million across both public and private digital platforms. Their prior professional backgrounds include, but are not limited to, roles in Fortune 500 companies, university guest lecturing, television hosting, and celebrity streaming at large multi-channel network agencies. They have assisted more than 100 business owners in achieving online customer acquisition and monetization through live-streaming, with over 50 of these cases generating over RMB10 million in revenue per project. The team also possesses substantial practical experience in cross-industry live-streaming operations and commercial implementation. The Target Company's high-value individual and corporate trainees include, but are not limited to: Clarins, L'Oréal, Audi, ByteDance, Xinghua Village Fenxing Distillery, Full Monty, and Usmile.

The Target Group integrates excellent cases and practical methods from the e-commerce industry to provide full-chain solutions such as training courses, hands-on project guidance, and corporate training for individuals and enterprises, which can effectively enhance the comprehensive service capabilities of the Group's new media service business. In particular:

(1) The course content originates from the excellent practical experience of the Target Group's instructor team. A comprehensive multi-dimensional systematic course for the e-commerce industry from a foundational to an advanced level has been established, covering core e-commerce business scenarios such as operations, short video, anchor training, advertising placement, and distribution. The existing systematic courses can provide the Group with efficient training and business optimization, enabling effective improvement in service capabilities and operational efficiency.

(2) The Target Company possesses strong course development capabilities, enabling it to extract and refine courses and methodologies based on the latest platform trends, current events, and excellent cases, achieving content co-creation with the Group. These are distilled into standardized methodologies and replicated across the entire organization.

(3) The students and clients of the Target Group can generate substantial cooperative business orders with the Group, jointly building a full-chain service ecosystem for live-streaming e-commerce.

Leveraging the Group's existing strengths in live-streaming e-commerce services and the Target Group's deep understanding of the behavior of both marketing talents and the merchants, the Acquisition is expected to enable the Group to deepen cross-selling opportunities and unlock the potential of long-term customer value, thereby driving its revenue growth. This will enhance the Group's comprehensive service capabilities in live-streaming e-commerce sector and attract more business partners and customers.

(c) Enriching live-streaming content and knowledge reserves

The Target Group's extensive course content, practical case studies, and cutting-edge industry insights will become one of the valuable strategic assets of the Group. These resources are expected to continuously support the Group's ongoing business optimization and innovation, ensuring that the Group remains agile and competitive amid rapidly evolving industry dynamics.

As mentioned in the sub-section headed "Information on the Group" above, we noted that the Group's new media services segment has achieved positive results relatively during FY2024. The Group's new media services segment recorded an increase in revenue of approximately 16.40% as compared to for FY2023; and according to the 2024 Annual Report, the Group's new media services segment achieved a gross merchandise value (GMV) of approximately RMB15.08 billion for FY2024, an increase of 19.58% as compared to that for FY2023. As mentioned in the 2024 Annual Report, the Group is committed to leveraging its video technologies and services to further expand its service capabilities in the all-media market, especially in the new media market.

From an industry point of view, we noted that the new media industry in the PRC has developed rapidly over the past few years. In particular, according to a statistical report as published in January 2025 (https://www.cnnic.com.cn/IDR/ReportDownloads/202505/P020250514564119130448.pdf) by the China Internet Network Information Center (a unit under the Ministry of Industry and Information Technology of the PRC which undertakes the responsibilities as the national internet network information center), the number of online video users in the PRC had reached 1,070 million as at December 2024, representing an increase of approximately 3.47 million from December 2023, accounting for approximately 96.6% of all internet users. According to an article published by the Ministry of Commerce on 23 January 2025 (https://www.mofcom.gov.cn/xwfb/sjfzrfb/art/2025/art_7cbe60243e0c486191d459b73dadb32a.html), the online retail sales grew by approximately 7.2% in 2024, and the contribution of online retail sales of physical goods amounted to approximately 26.8% of the total retail sales in 2024. As mentioned in an article published by Xinhua News Agency on 25 January 2025 (https://www.gov.cn/lianbo/bumen/202501/content_7001116.htm) (the official state news agency of the PRC), the PRC has been the world's largest online retail market for 12 consecutive years. Accordingly, we are of the view that the Group has a large market space and development potential in the field of new media services and the acquisition will further strengthen the Group's comprehensive service capabilities and core competitiveness in the new media service sector and solidify the Group's competitive edge and market influence in live-streaming ecommerce industry, is in line with the development trend of the Group.

According to the Board Letter, the Partnership's bank account has only been used for its initial capital contribution to the Target Company since its set up and has had no other transaction history. Based on recent communications with its bank, the Partnership is subject to an annual outward remittance limit of RMB5 million, which is substantially lower than the consideration it was due to receive under the Equity Purchase Agreement. To resolve this issue, the parties agreed to change the transaction structure. The Board has agreed to enter into the Supplemental Agreement for the following reasons:

(a) The Amendments do not constitute a substantive change to the overall commercial objectives of the Acquisition and are not detrimental to the Company.

(b) In return of such structural change, the Company requested and obtained the Performance Guarantee from Ms. Xu and Mr. Cui directly. This is considered to be commercially more favourable to the Company in enforcing the Performance Guarantee and seeking recourse if the guaranteed performance targets are not met, as under common PRC practice, funds received by a partnership are typically distributed to its partners.

Taking into account the above, in particular, that (i) the Acquisition is in line with the development trend of the Group; and (ii) the potential synergies to be brought to the Group through the Acquisition as highlighted above, we concur with the Management's view that the Acquisition is in the interests of the Company and the Shareholders as a whole and is in the ordinary and usual course of business of the Group.

3. Principal terms of the Acquisition

Set out below are the principal terms of the Equity Purchase Agreement (as amended by the Supplemental Agreement), details of which are set out in the section headed "THE EQUITY PURCHASE AGREEMENT" of the Board Letter:

Date: 5 August 2025 (the Equity Purchase Agreement)
25 September 2025 (the Supplemental Agreement)

Parties:

(1) the Subsidiaries, as purchasers

(2) the Vendors of the Target Company, as vendors

(3) the Vendors of the Partnership

(4) the Partnership

(5) the Target Company

Subject matter:

Pursuant to the Equity Purchase Agreement (as amended by the Supplemental Agreement), the Subsidiaries have conditionally agreed to acquire:

(a) the Sale Equity, representing 65.065% of the equity interests in the Target Company, from the Vendors of the Target Company; and

(b) the Sale Partnership Interest, representing 100% of the partnership interest in the Partnership (which in turn holds 34.935% of the equity interest in the Target Company), from the Vendors of the Partnership.

Set out below is the registered capital of the Target Company at the date of the Equity Purchase Agreement:

Shareholders	**Registered capital** *(RMB)*	**Paid up capital** *(RMB)*	**Shareholding**
The Partnership	685,000	685,000	34.935%
Mr. Li Liang	450,980	450,980	23%
Mr. Li Jun	411,765	411,765	21%
Vendor D	315,000	315,000	16.065%
Vendor E	98,039	98,039	5%
Total	**1,960,784**	**1,960,784**	**100%**

Consideration:

Pursuant to the Equity Purchase Agreement (as amended by the Supplemental Agreement), the total Consideration of RMB180.0 million (equivalent to approximately HK$197.9856 million) shall be paid by the Subsidiaries to the Vendors in two installments:

(i) 50% of the total Consideration shall be paid within 30 business days following the Completion Date; and

(ii) the remaining 50% of the total Consideration shall be paid on or before 31 December 2025.

The Consideration that the Subsidiaries shall pay to the Vendors of the Target Company and the Vendors is as follows:

Shareholders	**Amount of consideration** *(RMB million)*	**Equivalent Amount in HK$** *(approximate) (HK$ million)*
Vendors of the Partnership		
Ms. Xu	53.45055	58.7903
Mr. Cui	9.43245	10.37497
Vendors of the Target Company		
Mr. Li Liang	41.400	45.53669
Mr. Li Jun	37.800	41.57698
Vendor D	28.917	31.80639
Vendor E	9.000	9.89928
Total	**180.0**	**197.9856**

Conditions precedent:

The Completion is conditional upon the fulfilment (or waiver, except for (a) below, which shall not be waived) of the following conditions:

(a) the Company having complied with the applicable requirements under the Listing Rules in connection with the Equity Purchase Agreement and the transactions contemplated thereunder, including but not limited to publication of the Announcement and the circular and obtaining approval from Independent Shareholders at the EGM;

(b) each of the Subsidiary and the Vendors having obtained all necessary internal approvals and completed relevant corporate authorisation processes in relation to the transactions contemplated under the Equity Purchase Agreement; and

(c) there being no breach on the part of the Vendors under the Equity Purchase Agreement.

As at the Latest Practicable Date, the conditions precedent (b) as set out above is fulfilled.

Completion:

Within 5 business days after the conditions precedent are fulfilled or waived, the Target Company shall convene a shareholders' meeting to approve the equity transfer under the Equity Purchase Agreement and update the register of shareholders to reflect the Subsidiary as the new shareholder while the Partnership shall convene a partners' meeting to approve the transfer of the partnership interests and update its register of partners to reflect the Subsidiaries as the new partners.

The Target Company shall complete the industrial and commercial registration of the equity transfer under the Equity Purchase Agreement within 30 business days following the satisfaction (or waiver) of all conditions precedents. The date on which the equity transfer under the Equity Purchase Agreement is registered with the relevant PRC authority and a new business license is issued to the Target Company shall be deemed the Completion Date.

Performance Guarantee:

Ms. Xu, Mr. Cui, Vendor B (i.e. Mr. Li Liang), and Vendor C (i.e. Mr. Li Jun) (together, the "**Guarantors**") have provided a performance guarantee in respect of the Target Group's consolidated financial results for the three years ending 31 December 2025, 2026, and 2027 (the "**Performance Guarantee Period**").

The Guarantors have guaranteed that the audited consolidated net profit of the Target Group (before deducting non-recurring gains and losses) attributable to shareholders of the Target Company for the Performance Guarantee Period (the "**Guaranteed Profit(s)**") shall not be less than the following amounts:

(i) RMB18.0 million for the year ending 31 December 2025;

(ii) RMB21.0 million for the year ending 31 December 2026; and

(iii) RMB24.0 million for the year ending 31 December 2027.

Total guaranteed net profit of the Target Group (before deducting non-recurring gains and losses) attributable to shareholders of the Target Company for the Performance Guarantee Period is RMB63.0 million.

If the audited consolidated net profit of the Target Group (before deducting non-recurring gains and losses) attributable to shareholders of the Target Company in any year during the Performance Guarantee Period is less than the guaranteed amount for that year, the Subsidiary shall have the right to request the Guarantors to pay, by 30 April of the year following the end of the relevant year of the Performance Guarantee Period, a cash compensation calculated as follows:

Cash compensation = (Shortfall amount) × 2.86

The cash compensation multiple of 2.86 was calculated by dividing the Consideration (RMB180 million) by the aggregate amount of the consolidated net profit committed for the earn-out period (RMB63 million). The cash compensation shall be borne by the Guarantors in the following proportions:

Guarantor	Proportion of Compensation
Ms. Xu	37.62%
Mr. Cui	6.64%
Mr. Li Liang	29.14%
Mr. Li Jun	26.60%

Each Guarantor is only responsible for its respective portion of the cash compensation and shall not be jointly liable.

The cash compensation shall be paid within 5 business days upon receipt of written notice from the Subsidiary.

4. Analysis on the Consideration

As mentioned in the Board Letter, the Consideration was determined after arm's length negotiations between the Group and the Vendors having taken into account (i) the historical financial performance and condition of the business of the Target Group; (ii) the valuation of the Target Group valued at RMB180.0 million as at 30 June 2025, based on the preliminary valuation results of AsiaPacific Consulting and Appraisal Limited (the "**Valuer**"), an independent professional valuer, using the income approach with discounted cash flow ("**DCF**") valuation; and (iii) the reasons for and benefits of the Acquisition.

The valuation report (the "**Valuation Report**") on the valuation of the equity value of the Target Group as at 30 June 2025 (the "**Valuation**") has been issued by the Valuer, details of which are set out in Appendix I to the Circular. For our due diligence purpose, we have reviewed the Valuation Report prepared by the Valuer, and have discussed with the Valuer regarding the Independent Valuation with details set out below.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the valuation report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. From the engagement letter and the relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation and the Valuation Report. The Valuer also confirmed that they are independent to the Group, the Target Group and the Vendors.

Based on our discussion with the Valuer and review of the Valuation Report, it is noted that the Valuer selected income approach to conclude the Valuation. We understand that the Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach:

(i) Asset-based approach:

As the asset-based approach does not directly incorporate the synergies between different tangible and intangible assets, including human resource and management structure, and cannot directly reflect the future economic benefits of the relevant assets, the Valuer considers that the asset-based approach is not appropriate in this case.

(ii) Market approach:

The Valuer attempted to identify public comparable companies based on the business models and financial conditions of the Target Group. According to the screening criteria adopted, the Valuer had identified three public comparable companies (the "**Comparable Companies**"). The Valuer has considered multiples related including price to earnings ("**P/E**") multiple, enterprise value to earnings before interest and tax multiple and enterprise value to earnings before interest, tax, depreciation and amortization (EBITDA) ("**EV/EBITDA**") multiple and price to book ("**P/B**") multiple. For revenue multiples, the Valuer considered that revenue multiples are more appropriate to assess the value of unprofitable, sales driven, and high volatile profitability companies, such as high-tech company with high sales growth, start-up companies and bio-tech companies. Besides, for companies in the growth stage that have achieved a certain revenue scale but not yet turned profitable, the price to sales multiple is one of the only feasible market approach multiples. However, such multiples ignore differences in profitability and tend to overvalue low-quality revenue. Taking into account that the Target Company has moderate growth expectation, stable profitability (as mentioned in the Valuation Report, the Target Group has achieved relatively stable operating profitability; excluding the one-off non-recurring losses incurred by the Target Group in FY2023, it would have generated pre-tax profit exceeding RMB8 million) and not sales driven, the Valuer considered that the price to sales multiple is not an appropriate market multiple. The P/B multiple is considered not appropriate for the Valuation because it is mainly used in capital intense and assets-driven industry, such as financial industry, industrial manufacturing industry and etc. Considering the industry of the Target Group is neither capital-intensive nor asset intensive industry, the Valuer considered that the P/E multiple, which is a widely adopted valuation multiple, is more appropriate in the Valuation as compared to EV/EBITDA multiple and P/B multiple. The Valuer has conducted a comparative analysis of the public comparable companies' market capitalization, revenue scale, profit margins and P/E multiples to evaluate the applicability of the market approach for the Target Group. Among the three public Comparable Companies identified, one of which is not appropriate for market approach as consecutive losses incurred by the subject company in the previous financial periods had led to significantly higher multiple than its market peers. As the remaining two Comparable Companies show the larger revenue scale and different profitability compared with the Target Group, the market multiple of the two Comparable Companies cannot provide a reliable base to estimate the market value of the Target Group, thus the Valuer considers that the market approach is not appropriate.

(iii) Income approach:

As (a) the Target Group is in a growth stage, the DCF method can better reflect its future cash flow potential; (b) the DCF method incorporates Management's clear defined business plans; and (c) the forecasts prepared by the Management demonstrate reasonable revenue growth and margin projection relative to historical and peers of the Target Group, the Valuer has adopted the income approach for the Valuation.

Based on the above, and taking into account our discussions with the Valuer regarding their selection of valuation approach, we consider that the use of income approach in valuing the Target Group to be reasonable.

We further reviewed and enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in the valuation report in order for us to understand the valuation report. We also discussed the key assumptions and parameters under the Valuation, including revenue, operational expenses, free cash flow to firm, discount rate (derived by weighted average cost of capital), discount for lack of marketability, etc. Details of the above are set out below:

(a) Revenue

Revenue of the Target Group mainly comprises online and offline live-streaming e-commerce training courses and live-streaming e-commerce partnership service. The projected revenue of the Target Group represented YOY growth of 12%, 12%, 10%, 5%, 3% and 2% during each of years ended 31 December 2025 ("**FY2025**"), 2026 ("**FY2026**"), 2027 ("**FY2027**"), 2028 ("**FY2028**"), 2029 ("**FY2029**") and 2030 ("**FY2030**") respectively.

Despite that the Target Group recorded YOY revenue growth of approximately 63% for FY2023, the Target Group only recorded YOY revenue growth of approximately 0.1% for FY2024 due to underperformance of previously contracted channel partners. As the Target Group slowed down its channel partner expansion in 2025 and implemented dual strategies for its training business by expanding customer acquisition channels and diversify product portfolio, the financial performance improved, and the Target Group recorded YOY revenue growth of approximately 15% for HY2025.

In relation to the aforesaid dual strategies, we have inquired about the details of the aforesaid dual strategies. We understand that expanding the customer acquisition channel is primarily achieved through (i) the refined operation of existing channels by optimizing placement strategies and precisely targeting customer segments and (ii) continuously exploring new channels, moving beyond Douyin to gradually expand into platforms such as Video Channels, Xiaohongshu, and TikTok. By increasing exposure to potential customers and accurately targeting high-value clients, revenue will be enhanced. Similarly, diversify product portfolio is also driven by two key sub-strategies: (i) Horizontally, it involves broadening the range of products to meet the diverse needs of a single customer, unlocking the potential for multiple sales to the same individual; and (ii) Vertically, it includes launching higher-end or more entry-level products to cater to different customer segments. By improving product coverage across diverse demographics, revenue growth will be further stimulated. For our due diligence, we have further obtained and reviewed introduction documents regarding the aforesaid dual strategies, which include, among other things, how increasing exposure and accurate customers targeting are achieved and details of product offerings of the Target Group. We have also obtained certain key operating data in relation to the aforesaid dual strategies of the Target Group. In particular, we noted that the Target Group's advertising expenses used in customer acquisition channels amounted to approximately RMB29.93 million for HY2025, representing approximately 67.2% of that for FY2024; and as at 30 June 2025, the Target Group offered 29 training courses of different content, as compared to 18 and 24 courses respectively as at 31 December 2023 and 31 December 2024. As confirmed by the management of the Target Company, the implementation of the aforesaid dual strategies had resulted in the increase in the Target Group's revenue in FY2024 and HY2025. The management of the Target Company considered that the implementation of the aforesaid dual strategies will continue to bring positive impact to the financial performance of the Target Group and took into account such dual strategies in the forecast.

The projected revenue of the Target Group for FY2025 to FY2030 were estimated by the management of the Target Company with reference to the historical financial performance and business plans of the Target Group. For each of FY2025, FY2026 and FY2027, the expected YOY revenue growth rates of the Target Group of 12%, 12% and 10% respectively are in line with the projected growth rates of the Comparable Companies. Although the Valuer considered that the trading multiples of the Comparable Companies are not appropriate for the market approach, the Comparable Companies' revenue growth rates are appropriate as reference for comparison as they have similar business models and are in the same industry as the Target Group. For our due diligence purpose, we have independently verified the selection of Comparable Companies based on the screening criteria adopted by the Valuer, and we are satisfied that the Comparable Companies have met the aforesaid screening criteria and are in the same industry as the Target Group. For each of FY2028, FY2029 and FY2030, a moderate and decreasing YOY growth rates of 5%, 3% and 2% were adopted by the management of the Target Company after the high growth stage.

(b) Operational expenses, earnings before interest and tax (EBIT) and earnings before interest, tax, depreciation and amortization (EBITDA)

The major operational expenses of the Target Group include costs of goods sold, marketing expenses and management and administrative expenses. The projected costs of goods sold mainly consist of instructor fees, course development fees, video data editing expenses and digital tool product fees. The projected marketing expenses mainly consist of staff costs and online platform service fee. The projected management and administrative expenses mainly consist of staff costs and office expenses.

For FY2023, FY2024 and HY2025, the EBIT margins (being EBIT/revenue, where EBIT = revenue – costs of goods sold – marketing expenses – management and administrative expenses) of the Target Group were approximately 6.1%, 12.8% and 14.2% respectively. The management of the Target Company expects that the completion of corporate relocation by the end of 2024 is expected to result in a modest reduction in management and administrative expenses for FY2025 and FY2026, and to stabilize thereafter resulting a higher EBIT margin in FY2025 and FY2026. Based on the forecast, the EBIT margins of the Target Group are approximately 14.7% for the six months ending 31 December 2025 and 15.7% for FY2026, FY2027, FY2028, FY2029 and FY2030.

For FY2023, FY2024 and HY2025, the Target Group recorded EBITDA margins (being EBITDA/revenue, where EBITDA = EBIT + depreciation and amortization) of approximately 6.9%, 13.4% and 14.6% respectively. The management of the Target Company expects that the completion of corporate relocation by the end of 2024 is expected to result in a modest reduction in management and administrative expenses for FY2025 and FY2026, and to stabilize thereafter resulting a higher EBITDA margin in FY2025 and FY2026. Based on the forecast, the EBITDA margins of the Target Group are approximately 14.9% and 15.8% for the six months ending 31 December 2025 and FY2026 and 15.9% for FY2027, FY2028, FY2029 and FY2030.

According to the management of the Target Company, the operating model of the Target Group is expected to remain stable after the earlier years of development and the forecasted EBIT and EBITDA margins of the Target Group are expected to remain stable from 2026 to 2030.

(c) Free cash flow to firm

Based on the forecast, the free cash flow to firm is based on the earnings before interest after tax adjusted for the change in net working capital, capital expenditure and depreciation and amortization (being EBIT — tax expenses — changes in net working capital — capital expenditure + depreciation and amortization).

The tax expenses are forecasted based on the corporate tax rate in the PRC, while the changes in net working capital are estimated based on the forecasted financial performance and historical turnover days of working capital items of the Target Group. The net working capital of the Target Group in FY2023 and FY2024 are negative RMB29.86 (i.e. -29.86) million and negative RMB25.09 (i.e. -25.09) million respectively. The net working capital/revenue ratio of the Target Group was approximately -22.0%, -18.4%, -14.1% for FY2023, FY2024, and HY2025, respectively. Based on the forecast, the net working capital/revenue ratio of the Target Group is projected to remain at -16.6% during the forecast period.

For the capital expenditure, it is based on the Target Group's business plan for replacement of necessary equipment in the forecasted period. The capital expenditure amounts of the Target Group in 2023 and 2024 are RMB372,377 and RMB470,879, respectively. The capital expenditure /revenue ratios of the Target Group for FY2023, FY2024, and HY2025 were approximately 0.3%, 0.3%, and 0.2%, respectively. During the forecast period, the capital expenditure/revenue ratio of the Target Group is expected to remain within the range of approximately 0.2% to 0.3%.

The depreciation and amortization are estimated based on the existing fixed assets and expected capital expenditure of the Target Group according to its accounting policy. The depreciation and amortisation of the Target Group in FY2023 and FY2024 are RMB1.09 million and RMB0.83 million respectively. The depreciation and amortisation/ revenue ratios of the Target Group for FY2023, FY2024, and HY2025 were approximately 0.8%, 0.6%, and 0.4%, respectively. During the forecast period, the depreciation and amortisation/revenue ratio of the Target Group is expected to remain within the range of approximately 0.2% to 0.3%. The difference in the depreciation and amortisation/revenue ratio between the forecast period and the historical period is primarily due to the longer real useful life than the accounting useful life of the fixed assets, such as air conditioners and large training room screens, in its early establishment phase (late 2021 to early 2022), with a total purchase value exceeding RMB1 million. According to the accounting depreciation policy of the Target Company, these assets were depreciated over a three-year period and were fully depreciated by late 2024 to early 2025. However, these assets remain in usable condition and do not require replacement in longer period. As a result, the depreciation and amortisation/revenue ratio during the historical period was relatively higher.

(d) Discount rate

The discount rate applied to the valuation of the equity value of the Target Group under the DCF is based on the weighted average cost of capital (the "**WACC**"). The WACC is the weighted average of cost of equity and cost of debt. The cost of equity is determined by capital asset pricing model ("**CAPM**"), and the cost of debt refers to the five-year Loan Prime Rate ("**LPR**") from the People's Bank of China, net of tax effect. In arriving at the WACC, we have inquired with the Valuer the key parameters and calculation considered, details of which are listed as follows:

Risk-free rate

The risk-free rate adopted is 1.90%, which represented the yield of a China Government bond with maturity of 20 years.

Equity risk premium

The equity risk premium adopted is 7.31%, which refers to the "Kroll Cost of Capital Navigator" research regarding equity risk premium published by Kroll, LLC.

Beta

The beta adopted is 1.24, which refers to the beta of the comparable companies through Capital IQ data base.

Other specific risk premium

Other specific risk premium consists of size premium of 4.47%, which refers to the "Kroll Cost of Capital Navigator" research regarding size premium published by Kroll, LLC and 2.00% of other specific risks of the Target Group.

Debt to market capitalization ratio

The debt to market capitalization ratio adopted is 3.52%, which refers to the data from the comparable companies through Capital IQ data base.

Cost of debt

The cost of debt adopted is 2.63%, which is determined with reference to the LPR, sourced from the People's Bank of China, net of tax effect.

We have obtained the supporting document from the Valuer and noted that the Valuer has calculated the discount rate of approximately 17% based on the WACC.

(e) Discount for lack of marketability (DLOM)

As the Target Company is a private company, the Valuer has applied a DLOM of 20% due to reduced level of marketability of a private company. We have discussed with the Valuer the concept of the DLOM and noted that the DLOM was commonly applied in valuation exercise on unlisted companies. We understand from the Valuer that they have estimated the DLOM with reference to the put option pricing model, which is a commonly used method in the market in estimating the DLOM. The DLOM is resulted from the inability to exercise a right to sell and the cost of the put option reflects the DLOM of the shares as the shareholder is assumed to lose the ability to sell the shares at this price during the entire restriction period regardless of volatility. We have obtained the supporting document from the Valuer and noted that the Valuer has calculated the DLOM of 20% based on the put option pricing model.

During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the valuation report.

As the Valuer adopted the income approach to appraise the equity interest of Target Group, in such case, it is stipulated under Rule 14.60A of the Listing Rules that the Company is required to obtain (i) a letter from its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and (ii) a report from its financial advisers confirming that they are satisfied that the forecasts in such valuations have been made by the directors after due and careful enquiry, if no financial advisers have been appointed in connection with the transaction, the Company must provide a letter from the Board confirming they have made the forecast after due and careful enquiry. We consider that the above stipulation of the Listing Rules could safeguard the interest of the Shareholders and we noted that the Company has complied with the said requirements (see Appendix II and Appendix III to the Circular).

From Appendix II to the Circular, we noted that in the Company's auditors' opinion, so far as the arithmetical accuracy of the calculations of the DCF forecast which the valuation report is based on (the "**Forecast**") is concerned, the Forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors. From Appendix III to the Circular, we noted that the Board has confirmed that the Forecast has been made by the Directors after due and careful enquiry.

Having considered the above and that the Consideration is equivalent to the Valuation, we are of the view that the Consideration is fair and reasonable.

5. Analysis on the performance guarantee

Based on the Forecast, we noted that the Target Group is expected to achieve net profit (before deducting non-recurring gains and losses) attributable to shareholders of the Target Company of approximately RMB8.8 million, RMB20.0 million and RMB22.0 million (the "**Forecasted Profits**") for the six months ended 31 December 2025, FY2026 and FY2027 respectively. On the other hand, the Guaranteed Profits are higher than the forecast amounts for each of the respective years under the Guarantee Period. As advised by the Management, the Guaranteed Profits were determined under due and careful consideration and after arm's length negotiations between the Company and the Vendors (including Guarantors) with reference to the Forecast. In assessing the Guaranteed Profits, the Management has reviewed the Forecast together with the relevant supporting documents and discussed with the Vendor regarding the basis of preparation and the underlying assumptions therein. The Management considers that the Forecasted Profits will likely be met by Target Group for the Performance Guaranteed Period, while the Guaranteed Profits, which are set at higher level than the Forecasted Profits, will serve as a protection to the Company.

Having considered that (i) Guaranteed Profits were determined after arm's length negotiations between the Company and the Vendors (including Guarantors) with reference to the Forecast; and (ii) the performance guarantee (with the Guaranteed Profits being set at higher level than the Forecasted Profits) provided by the Guarantors serves as a protection to the Shareholders' interests under the Acquisition without having to incur any extra costs on the part of the Group, we are of the view that the performance guarantee arrangement is fair and reasonable.

Taking into account the above, we consider that the terms of the Acquisition are fair and reasonable.

6. Possible financial effects of the Acquisition

According to the Board Letter, upon the Completion, the Partnership will become an indirect wholly-owned partnership owned the Company, and the Target Company will also become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the financial statements of the Group.

As set out in the sub-section headed "Information of the Target Group" of this letter above, the Target Group recorded revenue of approximately RMB136.02 million and net profit of approximately RMB16.09 million in FY2024. As advised by the Management, it is expected that the revenue and profits of the Group will increase upon Completion as a result of the consolidation of financial performance of the Target Group.

As advised by the Management, the total assets and liabilities of the Group will increase upon completion of the Acquisition as enlarged by the assets and liabilities of the Target Group.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has fifteen years of experience in the corporate finance industry.